

**CLARKSTON SCHOOL DISTRICT No. J250-185**  
**Asotin County, Washington**  
**September 1, 1994 Through August 31, 1995**

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**Schedule Of Findings**

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1. Purchases By The Food Services Manager Did Not Comply With State Bid Law And Included A Prohibited Beneficial Interest

Our audit of the purchasing records of the district's food services program revealed that the food services manager (manager) circumvented state bid laws for her own private benefit.

The manager approves purchases of between \$250,000 and \$300,000 annually for supplies and materials for the food services program. Approval of capital outlay expenditures for this program is also under the manager's direct control but the amount of these expenditures varied from year to year depending upon program need.

Purchases under the manager's direct control were made from one qualified vendor, URM Stores Inc. (URM). The firm employs the manager's spouse under a compensation package that includes bonuses based upon profit goals. Purchases from URM totaled approximately \$547,000 over the past four school years and represented an average of 50 percent of the total annual cost of the district's purchases of supplies and materials for the food services program. Since these transactions affected the net profits on which her spouse's bonuses were calculated, the manager indirectly received a private benefit as a result of these purchases. Thus, this business relationship represented a conflict of interest.

District management officials were made aware of this conflict of interest situation and applicable state bid law requirements at the conclusion of the prior audit on March 1, 1995. Specifically, we noted the following conditions:

- a. During the period from April 1, 1995, to August 31, 1995, the manager approved the purchase of \$52,300 in food services program supplies from URM. During an interview on March 29, 1996, the manager stated that phone quotations had been obtained from the five vendors which were generally used for purchases of food service supplies, and that there was written documentation to support this procedure. This documentation was not subsequently provided.
- b. As of October 5, 1995, \$21,000 in food services program supplies were purchased from URM for the 1995-96 school year. The purchases were made before the school district awarded a formal bid to the company. During our interview, the manager stated that phone quotations were used for the beginning of the school year and were documented. Documentation of this procedure was not provided.

- c. URM did not always provide the district with consistent pricing for food service products. For example, invoice No. 9392802 dated August 24, 1995, included a 100 case price of \$10.91 for one item; however, the bid price submitted by the vendor for the same item just 20 days later, was \$8.57.
- d. Invoices from URM were not adequately reviewed by the manager to determine whether the accepted bid price was the amount subsequently charged when purchases were made by the district. For example, invoice No. 941545 dated January 9, 1996, included four items, all of which were awarded to URM on October 5, 1995. This invoice contained the comment "as per bid" and the manager's initials. In all instances, the case price charged on this invoice exceeded the bid price awarded. The accounts payable clerk reviewed all invoices after this date and found that the manager had not requested a credit for this transaction. Thus, the district paid \$126 more than it should have. In contrast, purchases from the other qualified vendor indicated a detailed review of the invoices to ensure that the bid prices were adhered to. The total loss to the district from this method has not yet been determined.
- e. URM charged the district the awarded bid price only when items were ordered in quantity, generally 100 cases or more. For example, invoice No. 9396528 dated October 20, 1995, reflected that an item case price of \$31.10 was charged when 13 cases were ordered; however, the awarded bid price of \$24.28 per case was charged for the same item on invoice No. 9396742 dated October 24, 1995, when 154 cases were ordered. The total loss to the district from this method has not yet been determined.
- f. Goods were purchased from URM at prices higher than those accepted in the awarded bid when the number of items exceeded the quantity specified in the bid. Bid instructions indicated that quantities were estimated and subject to change with the understanding that the bid price would apply on the revised quantity. Our review of all URM invoices billed to the district during the period October 5, 1995, to February 29, 1996, indicated that the bid award case price for one item was \$24.28 for 200 cases. However, the prices charged for 79 cases purchased in excess of the 200 cases indicated on the bid sheet ranged from \$31.10 to \$32.91. Thus, these purchases resulted in a \$583 loss to the district. The total loss to the district from this method has not yet been determined.
- g. Goods were purchased from URM after a contract for certain food items had been awarded to another qualified vendor through formal sealed bidding procedures. Although the contract terms for the bid awarded to the other vendor were for the period November 21, 1995, to June 6, 1996, the manager did not place an order with this vendor until late December. An additional \$4,964 was purchased at higher prices from URM during December 1995, including many items awarded to the other qualified vendor. Our review of invoice No. 9400134 dated December 15, 1995, from URM for \$856 revealed that purchases valued at \$488 represented costs for items which had been awarded to the other qualified vendor. These items could have been purchased for \$89 less from the other vendor. The total loss to the district from this method has not yet been determined.

The district's business manager brought this condition to the attention of the superintendent and the food services manager's immediate supervisor. This was done verbally in January 1996 for the December 1995 invoices and in writing on February 7, 1996, for January 1996 invoices which still contained

purchases from URM even though the items purchased had been awarded to the other qualified vendor. On February 16, 1996, a memorandum to the manager from her immediate supervisor summarizing actions from a meeting the previous day stated: "We reviewed the necessity to order bid items only from the provider awarded the bid." The memo also discussed a plan for purchases where the district encountered delivery problems with the awarded vendor and alternate suppliers had to be used. Review of invoices from URM during the period February 16, 1996, to February 29, 1996, revealed that items awarded to the other qualified vendor were still being purchased from URM with no indication that there were any delivery problems. Prices paid to URM averaged 41 percent more than prices awarded to the other qualified vendor who was the lowest bidder for these items. The total loss to the district from this method has not yet been determined.

In our opinion, the above conditions indicate that the manager disregarded state bid law requirements and approved purchases from URM at prices that caused the district to pay more than necessary. Disregard for these requirements also deprived the awarded bidder of their lawful right to sales transactions under formal sealed bid procedures. In addition, management officials were not able to determine whether the district received the best possible price available for purchases in the food services program and adhered to the provisions of the state bid law.

The manager also used her delegated expenditure approval authority to enter into purchase transactions with URM, which provided an indirect beneficial interest to her under the provisions of her spouse's potential bonus compensation agreement.

RCW 28A.335.190 states in part:

**Advertising for bids--Competitive bid procedures--Telephone or written quotation solicitation, limitations--Emergencies.** (1) When in the opinion of the board of directors of any school district the cost of any furniture, supplies, equipment, buildings, improvements, or repairs, or other work or purchases except books, will equal or exceed the sum of fifty thousand dollars, complete plans and specifications for such work or purchases shall be prepared and notice by publication given in at least one newspaper of general circulation with in the district, once each week for two consecutive weeks, of the intention to receive bids therefor . . . (Emphasis ours.)

(2) Every purchase of furniture, equipment or supplies except books, the cost of which is estimated to be in excess of fifteen thousand dollars, shall be on a competitive basis . . . Whenever the estimated cost is from fifteen thousand dollars up to fifty thousand dollars, the procedures shall require quotations from at least three different sources to be obtained in writing or by telephone, and recorded for public perusal. (Emphasis ours.)

RCW 42.23.030 states in part:

**Interest in contracts prohibited--Exceptions.** No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein . . . .

RCW 42.23.050 states:

**Prohibited contracts void--Penalties for violation of chapter.** Any contract made in violation of the provisions of this act shall be void and the performance thereof, in full or in part, by a contracting party shall not be the basis of any claim against the municipality. Any officer violating the provisions of this act shall be liable to the municipality of which he is an officer for a penalty in the amount of three hundred dollars, in addition to such other civil or criminal liability or penalty as may otherwise be imposed upon him by law.

In addition to all other penalties, civil or criminal, the violation by any officer of the provisions of this act shall work a forfeiture of his office.

RCW 42.23.070 states in part:

**Prohibited acts. (Effective January 1, 1995.)** (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others . . .

(4) No municipal officer may disclose confidential information gained by reason of the officer's position, nor may the officer otherwise use such information for his or her personal gain or benefit.

The manager circumvented established purchasing controls in the district's food services program. However, the following internal control weaknesses allowed the manager to conceal these purchasing irregularities without being detected by management officials in a timely manner.

- a. There was an inadequate segregation of duties in the district's food services program. The manager was solely responsible for practically all food service operations. However, there was no periodic supervisory management review of the work performed by the manager which would accomplish the same objective as a segregation of duties between two or more employees.
- b. The manager did not maintain adequate written documentation of purchasing and competitive bidding procedures.

We recommend the district:

- a. Review overall purchasing accounting controls in the food services program, correct the weaknesses outlined above, and implement an effective system of internal controls designed to ensure the compliance with state laws and regulations and the protection of public assets.
- b. Inform all employees that the use of their position with the district for private benefit of themselves or others is prohibited by law.
- c. Review all purchase transactions with URM for compliance with the terms and conditions of the formal bid agreement, determine the full amount the district was overcharged for purchases which exceeded the authorized price, and seek reimbursement from URM for these overcharges.

2. The District Should Improve Controls Over Associated Student Body Activities

Our review of Associated Student Body (ASB) activities at the high school revealed control weaknesses in the following three areas:

a. General Receipting

(1) Mode of payment is not consistently indicated on ASB receipts issued by the ASB central treasurer or the count sheets received from club advisors and students. The intactness of deposits cannot be determined.

(2) Petty cash funds and receipts waiting deposit are held in a vault that is not locked during business hours in an area accessible to employees and students. At count date, cash waiting deposit was short when compared to receipts issued and no responsibility for the loss could be assigned. Although the cash shortage was insignificant, it demonstrates that the system in place does not adequately safeguard assets and protect them from loss.

b. Athletic Ticket Sales

(1) The high school recorded approximately \$27,000 in admissions over 46 athletic events for the 1994-95 school year. We noted that ticket/receipt reconciliation forms were missing for one event, actual cash indicated on the form did not agree to funds deposited for four events, and many others were significantly incomplete, including missing cash counts by cashiers and missing cashier signatures. In all instances, there were no explanations for discrepancies between actual revenue to expected revenue based on the number of tickets sold. Completeness of deposits cannot be determined and responsibility for potential losses cannot be assigned.

(2) Tickets used for admissions are stored on an open shelf in a vault that is not locked during business hours in an area accessible to employees and students. Tickets represent potential cash and are not adequately secured and protected from loss.

(3) Tickets have not been inventoried and a ticket control log is not used to track the use of tickets. The sequence of tickets is not adequately accounted for.

c. ASB Fund Raising Events

(1) Funds received from advisors and students are not always counted prior to transfer to the ASB central treasurer. Responsibility cannot be assigned for potential losses.

(2) Receipts from fund raising activities were used to purchase supplies. Receipts are not deposited intact.

(3) Fund raising reconciliation procedures are not consistently performed by activity advisors. We noted instances where preapproval forms and revenue reconciliations were significantly incomplete or not prepared at all. In many instances, they were only prepared at the request of the ASB central treasurer at the end of the school year. We also noted that many forms did not agree to revenue deposits and vendor purchases recorded in the accounting records. The completeness of deposits from fund raising activities cannot be determined.

(4) Student record sheets, documentation of merchandise distribution to students and the disposition of unsold goods, and other activity documentation are not always documented or maintained for audit. The adequacy of controls over fund raising activities cannot be determined.

The high school has developed forms and established procedures to adequately document and support ASB receipting, ticket sales, and fund raising activities. It appears the conditions noted above result from a lack of monitoring and supervisory approval by district administrators.

The weaknesses in the internal control structure of ASB activities increases the risk that errors and irregularities could occur and not be detected in a timely manner.

We recommend the district emphasize compliance with procedures, related to ASB receipting. We further recommend that the district strengthen controls to ensure assets are adequately safeguarded and protected from loss.